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July 1, 1998 **LETTER 1255**

Question: Russell, what do you think is happening?

Answer: Let's start with the international scene. I note that China (which has taken over leadership from Japan) has quietly threatened that if the yen drops to as low as 150 to the dollar, China will devalue. That frightening threat forced the US to join Japan to intervene in order to halt the yen's collapse. But following its initial surge, the yen has turned questionable to weak again. If on this or any forthcoming decline, the yen approaches its June 15 low (146 to the dollar) it wouldn't surprise me to see the Fed cut US rates in a desperate effort to lower the value of the dollar and boost the value of the yen. The US is very fearful of a new yen collapse followed by a Chinese devaluation.

Question: Wouldn't a US rate cut set off inflation here?

Answer: Well, possibly, but in the face of further major yen weakness and a potential Chinese devaluation, I think the Treasury and the Fed would be willing to take that chance.

Question: What about the stock market at this point?

Answer: I've been saying for months that the stock market has been traveling within a trading range. It's been in a wide-swinging, really violent trading range. BUT -- on June 23 the Nasdaq spurted to a new high. Then on June 24 the S&P 500 advanced to a new all-time high. These were very strange moves, and here's why. The new S&P high found the Dow lagging, the Transports lagging very badly and the advance-decline ratio lagging dramatically. All these lags tell us that these are extremely selective new highs in the Nasdaq and the S&P. On the NYSE it's been "merger mania" plus strength in big-cap stocks that's driven the market higher. On the Nasdaq it's been a limited number of tech stocks that supplied the fire power.

Question: The Dow still appears to be in a trading range. If so, what are the perimeters?

Answer: The **low** for the range comes in at **Dow 8627.93**, a level struck on June 15. The **top** of the trading range comes in at the all-time Dow high of **9211.84** which was hit on April 15. If the bull market is still in force, then the Dow should be able to follow the S&P and advance to and then above its 9211 high. If the Dow stubbornly refuses to confirm the S&P, then we'll know that something is very wrong.

Question: What about the Transports?

Answer: Something is obviously **bothering** the Transports -- they should have been much stronger in the face of steadily declining oil prices . The D-J Transportation Average topped out on April 16 at **3686.02**. You don't hear many analysts talking about the Transports, but I consider their **action critical** and almost more informative over recent months than the action of the Dow. The Transports have **acted poorly** ever since their mid-April high.

From their 3686.02 April 16 peak, the Transports declined to a June 2 low of 3259.30, followed by a rally to a high of 3461.71.

June 19 DJIA 8712.87; PTI 5319; A-D Ratio +9.25
June 26 DJIA 8944.54; PTI 5329; A-D Ratio +9.54
Dow Yield: 1.60%; Dow Price/Earnings: 23.0
Dow 144-day MA: 8616; Dow 34-day MA: 8913
Dow Times Book Value: 5.61; PTI 89-day MA: 5306
Percentage of Undervalued Blue-chips: 4%
Gold 34-day MA: 301

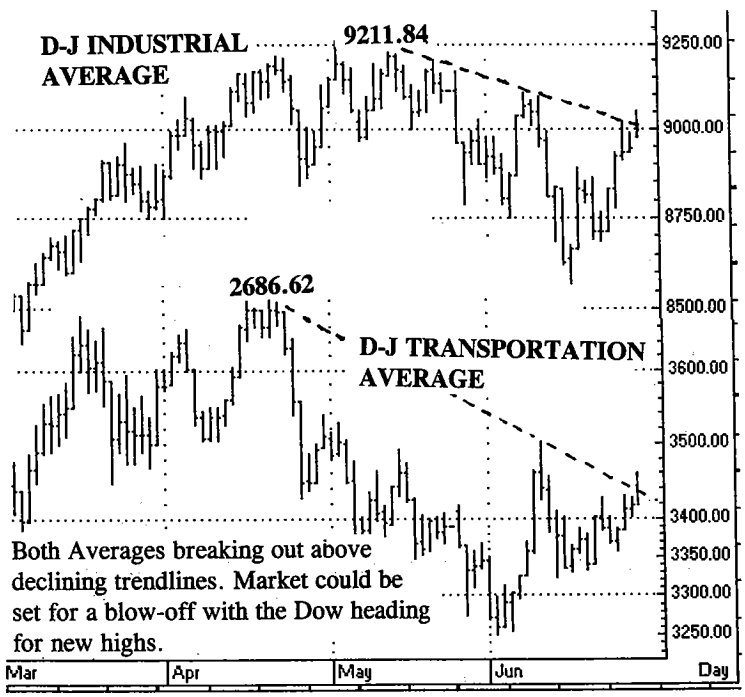
From there, Transport action **again turned weak**. For this reason, I'd say that on any Dow rally, even a Dow rally to new record highs, the Transports would probably not confirm.

As a matter of fact, I'd say that technically, some of the most important market phenomena of the past two months have been the poor action of both the Transportation Average and the advance-decline ratio in the face of much better action on the part of the Dow and the S&P 500.

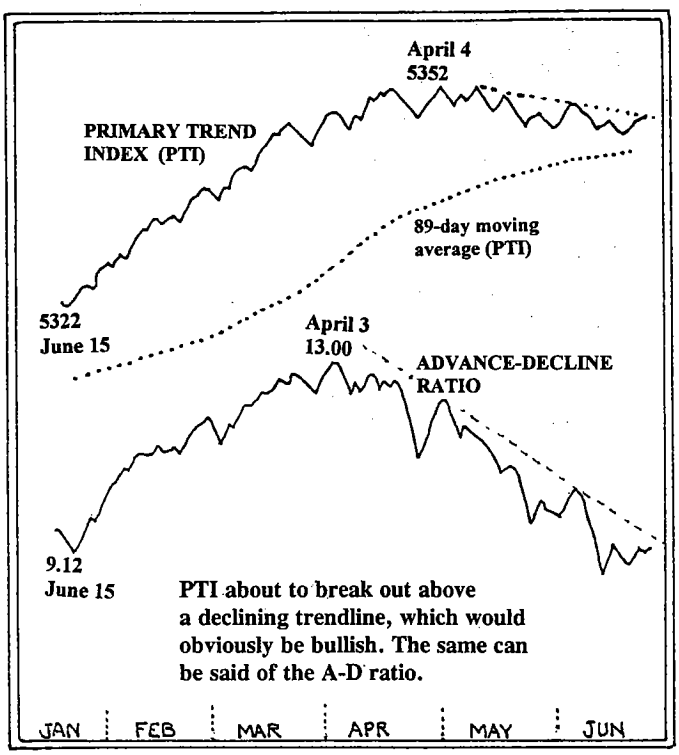
It's well to note that even in the face of a strong to firm Dow and a much stronger S&P, a very large number of stocks have been hurt and hurt badly. In fact, by mid-June the decline had lopped out $600 billion in market values. Again, by mid-June the average Nasdaq stock was down 23% and the average S&P stock was down 17%.

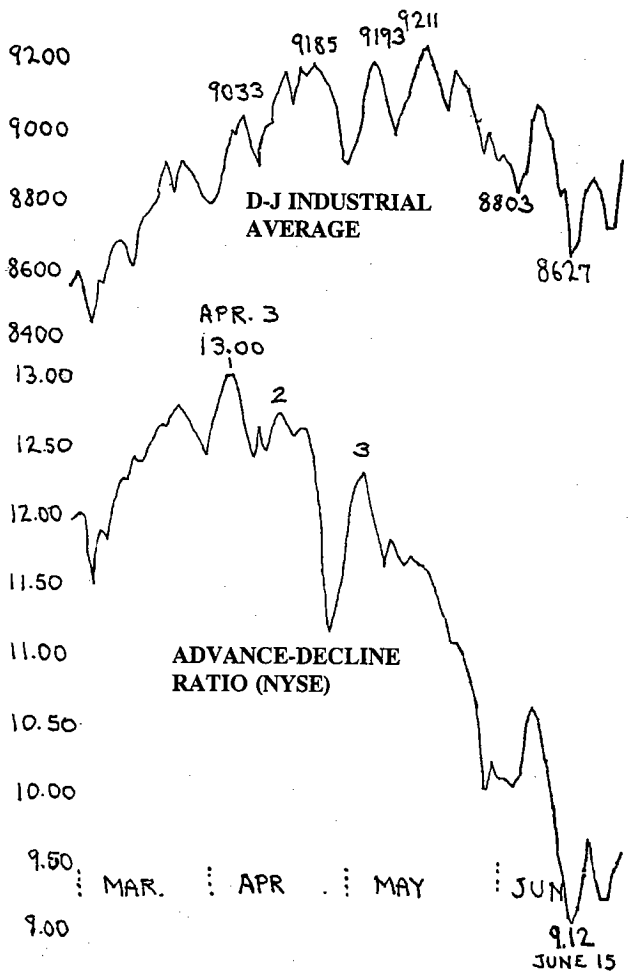
Question: What do you make of the **chronically lagging breadth?**

Answer: I'm including the chart on page 2 to show how dramatically the A-D ratio has lagged the Dow (and the Dow, in turn, has lagged both the S&P and the Nasdaq). When the A-D acts this poorly day after day, it's like a cancer in the market. It's eating away at the market's internals. With 40% of NYSE issues sensitive to interest rates and rates coming down, why has the breadth been so poor? Obviously something is hurting the majority of NYSE stocks. What is it? Your guess is as good as



Both Averages breaking out above declining trendlines. Market could be set for a blow-off with the Dow heading for new highs.





mine, but I can only say that when the majority of NYSE issues decline day after day, Wall Street is sending us a warning sign.

Question: Russell, what do you infer from the action of your **Primary Trend Index (PTI)**?

Answer: The PTI has been moving generally sideways but with a slight downside bias. But so far the PTI has been resistant enough to **hold above** its critical 89-day moving average. On June 22 the PTI declined to a low of **5319;** that low was within 16 points of its 89-day moving average -- but from there the PTI advanced sluggishly. I have drawn a declining trendline which has put a cap on all the PTI action since mid-May. I would be bullish if the PTI could advance above this trendline. As this is written, the PTI stands 21 points above its 89-day moving average.

Question: Why do you put so much faith in your **PTI?**

Answer: First, because over the 27 years that I've been working with the PTI, it's proven to be extremely valuable. It works. Secondly, a remarkable characteristic of the PTI is that it seldom produces whip-saw signals. In other words, once the PTI breaks decisively above its 89-day MA (a bull signal) or below its MA (a bear signal) the trend tends to continue. Whip-saws, as you probably know, are the bane of the technician and the trader.

Why does the PTI tend not to whip-saw? Answer: I'm not sure that I know. But I'll venture a guess: It takes steady underlying market deterioration before the PTI gives a bear signal, and it takes persistent constructive market activity before the PTI gives a bull signal. Also, the PTI is based strictly on definitive market action, rather than on the many subjective items that are open to interpretation. At any rate, for whatever reason, PTI signals seem to work, and that's the critical test as far as I'm concerned.

Question: What do you consider the best and the poorest elements of the market action, so far?

Answer: The best elements of the market are the big-cap stocks and the tech stocks.

The weakness in the current picture lies in the poor action of both the advance-decline ratio and the Transportation Average. Both of these continue to lag on almost all rallies in the Dow and the S&P. The weakness in the A-D is confirmed by the increased number of new 52-week lows that are seen in almost every session. On the week ending June 19 there were 454 new lows, which amounted to 12.3% of all NYSE issues that were traded.

Question: All eyes seem to be directed to the problems coming out of Asia. How important is the Asian situation, as far as Wall Street is concerned?

Answer: Obviously, the Asian mess is important. If, and I say IF, a bear market arrives, can we blame it on Asian problems? Frankly, I don't know. I've often wondered whether the Asian situation might just be the "cover" or excuse for a slew of other problems not yet known or realized. The history of both bull and bear markets is that in their very early stages, nobody seems to know why they started. Let me put it this way, the reasons for bull or bear markets are usually not known until many months after they've started.

Question: Russell, what do you make of the fact that, to some extent, stocks seem to be **de-coupling** from bonds?

Answer: De-coupling is very unusual. But the 1.5% average yield on the average stock is unusual -- actually it's unprecedented. As I've written before, if stocks are stuck in a trading range and you're sitting with stocks with a 1.5% or less yield, and then you compare stocks with Treasuries with a guaranteed 5.6% yield (free of state taxes), well, it's hard to sit with stocks. Remember, when stocks are so over-priced that they yield only 1.5%, from an investor's standpoint, they MUST go up -- otherwise you're receiving almost no return on your investment.

Another very important consideration is this: Many wealthy and sophisticated investors are ardent practitioners of **compounding**. In order to compound, you **must receive a return** on your

investment. A 1.5% return or less from stocks, compounding becomes almost impossible. But with 5.5% coming in, compounding works. For this reason, large individual investors, who are well aware of the fortune-building power of compounding, will opt for bonds rather than stocks at this juncture.

Question: How would you size up the whole market situation?

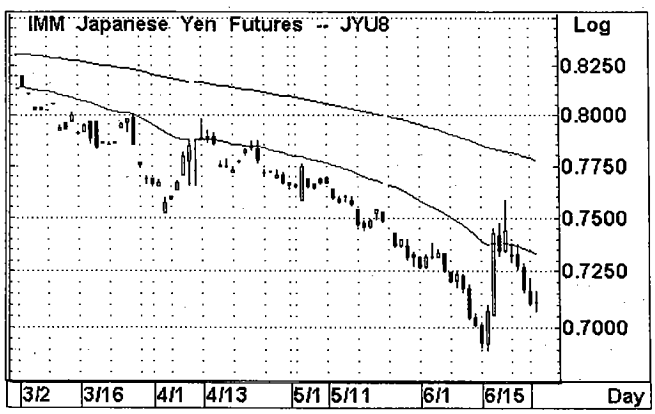
Answer: There have been so many divergences, lags and non-confirmations that I'd have to describe the market as a technical hodge-podge. When faced with this kind of hodge-podge (and I've faced these situation many times before) I tend **to depend more than anything else on the action of my PTI.** The PTI has the ability to cut through the stock market maze.

From May 4 to June 22 the PTI was in a mildly declining pattern. But the PTI has not accelerated on the downside, and it has not broken below its 89-day moving average. Therefore, I rate the stock market as still in a bull phase. But despite the new S&P high, it's not a robust bull phase. I say it's not robust because the advance-decline ratio has been so persistently sluggish on the upside. Nevertheless, we must give the bull the benefit of the doubt -- it's still a bull market, and it will remain one until proved otherwise.

Question: Couldn't the pathetic breadth pattern indicate that this is the early beginning, or at least the hint, of a bear market? After all, the pattern of the A-D ratio indicates that the majority of stocks have been sinking ever since April 12.

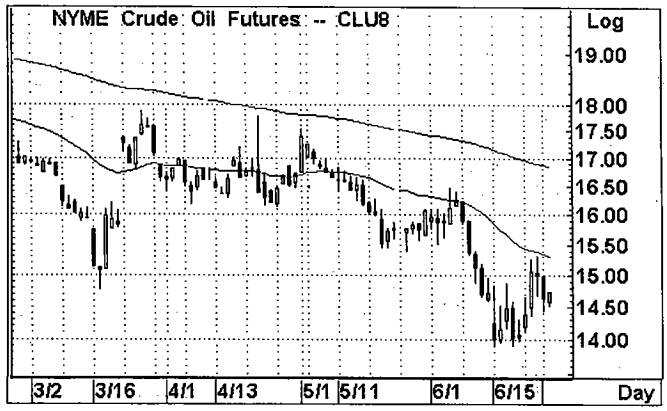
Answer: Anything is possible, and I've said that I do not like the A-D action. But I'd have to see more before I'd say that the bull is in the process of dying. At the least, I'd want to see new lows in the A-D ratio confirmed with a break in the PTI below 5303 (5303 is the current level of the 89-day MA of the PTI).

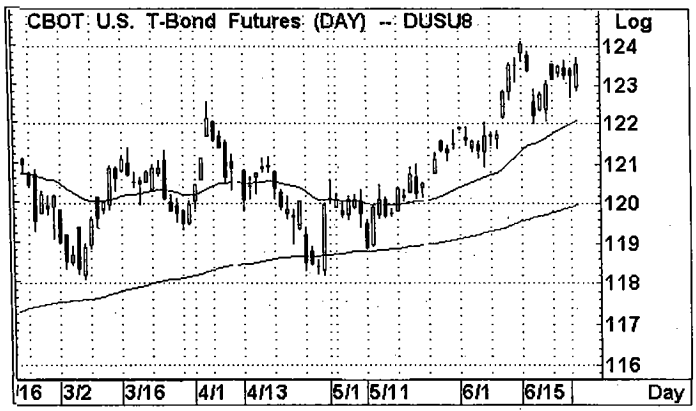
I'm including a few very critical charts. First, the Sept. yen futures. Here we see the yen surging to just above its 34-day moving average. But as it has all year, the 34-day MA has halted any yen rally. The yen has again been sliding, having given up about half of its "intervention gains." So far, however, the yen is holding (but tentatively) above its extreme low of 146 to the dollar recorded on June 15.



Next see the September crude oil futures. The story here is that oil has rallied rather feebly back to its 34-day MA. I won't be impressed with oil unless or until it can advance above 16.50. If oil continues to advance, the transports will not be happy about it. Remember, most of the transportation industry runs on gas or oil.

I've liked the bonds, but I think it's late to buy them now. Why late? Contrary opinion -- everybody and his brother says interest rates are heading down in the face of deflation. Can they all be right? I doubt it. Secondly, the commercials (dealers) have assumed their biggest short position against the bonds that I can

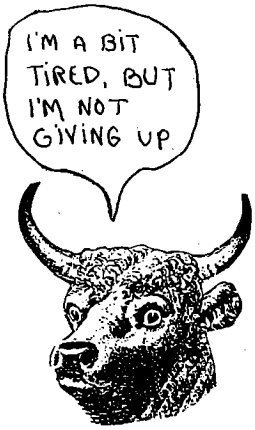




remember -- and these guys tend to be right. What are the commercials thinking? They're thinking that the US economy is still hot, and the only thing that will cool it down is higher interest rates.Are you kidding? The Fed wouldn't raise rates because that would kill the yen. Right, but bonds can decline and rates can rise without a move by the Fed (remember those bond market vigilantes?). If you haven't bought the bonds up to now, pass -- it's late.

Referring to the chart of the Sept. T-bond futures, I think the bonds look a bit toppy here. Breaking under 122 and the Sept. bonds will have seen their highs for a while, maybe quite a while.

INVESTMENT POSITION: The bonds, which I have recommended for many months, have had a big move and are currently off their highs. But there's a mystery here. The "commercials," the dealers, banks, etc. (who tend to be right) have assumed a huge **short** position in bond futures. This sets up the possibility of a BIG move either way. If the commercial short sellers are right (and they usually are) bonds could sell off. If they are wrong and forced to cover, bonds could shoot up five points in a hurry.



In an earlier section of this Letter I opined that it is late to buy the bonds. They've had a big move and now every analyst who isn't hot for stocks is saying "buy bonds." I'm stubborn, at this point I'd rather sit tight with short-term paper. T-bills would be my choice, T-bills and a large portion of patience.

When stocks yield little or nothing, I opt for the power of compounding. I keep warning readers that a stock that yields 1% or 2% MUST go up or you're sitting with literally no return. Or

let me put it another way, one stock yielding 1% may work out if you buy the right stock, but when the **average** stock on the NYSE yields only 1.5% or less, then you have to be very, very careful, because at that point everybody's betting that the market's going higher. Worse, **everybody needs the market to go higher.** And sadly, the stock market doesn't have a history of fulfilling everyone's needs.

The stock market is always there. The bond market is always there. There's nothing wrong with stepping aside for a while and resting. Besides, it's summer -- so why not take a nice relaxing trip to the beach (but be careful and slap on plenty of sunscreen).

NOTES & QUOTES: During the Great Depression my father would hold only two stocks, American Telephone and Woolworth. Telephone was loved for **never** cutting its famous nine-dollar dividend and Woolworth was the famous "five and ten cents store" -- these were the stores where most of America shopped for their everyday items (therefore, Woolworth was the ideal Depression stock). A few weeks ago Woolworth finally changed its name -- the company is now known as what?-- the Venator Group. What the hell does Venator mean? It sounds like some kind of dinosaur. Yes, I'll admit it, I was really sorry to see the great name of Woolworth disappear. What's next, General Motors changing its name to Flagalator or Kellogg changing to Popnut Scrummies?

Contrasts: Showing how hot real estate is in NYC, last week a 52-story skyscraper on Fifth Avenue sold for $523 a square foot, an all-time record for office space in the US. Prices for homes here in San Diego are up over 18% over the last 12 months. At the same time prices for Hong Kong real estate are sagging. This from the *NY Times* (June 23): "Seeking to stop a frightening downward spiral in the property market, Hong Kong's government today announced the halting of its sale of land until next March."

Add the following to comments on the high-flying NYC real estate. This is a partial list of recent transactions in Gotham; and yeah, you'll probably recognize a few of these names.

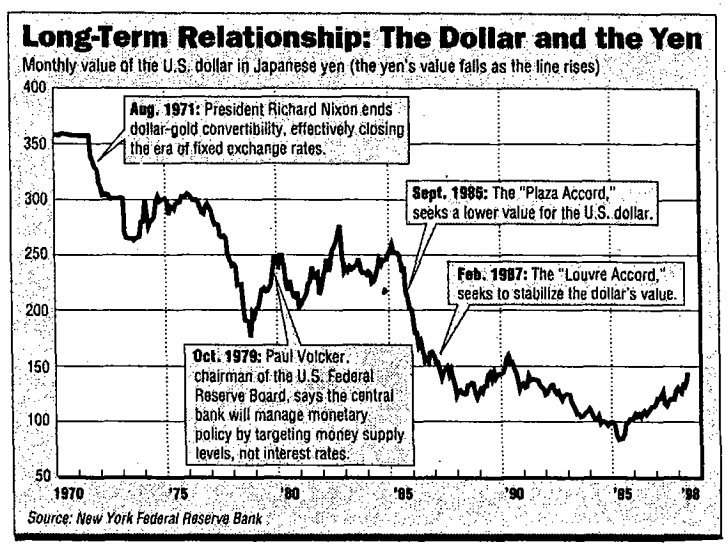
Buyer	Address	Price
Bruce Wasserstein, Wasserstein, Parella Group chairman	Fifth Avenue co-op	$11 million
Leslie Wexner, Limited chairman	Fifth Avenue co-op	$9.5 million
Kevin Kennedy, Goldman Sachs managing director	Central Park West co-op	$9.5 million
Ian Schrager, hotelier	Central Park West co-op	$9 million
David Copperfield, magician	East 57th Street condo	$7.4 million
Jon Tisch, Loews Hotels chief executive	Fifth Avenue co-op	$5.75 million
Michael Newhouse, general manager, *The Times* (Trenton, NJ)	Park Avenue co-op	$4.5 million
Jerry Seinfeld, comedian	Central Park West co-op	$4.35 million
Harry Crosby, investment banker	Fifth Avenue co-op	$4.35 million
Robert Redford, actor/director	Fifth Avenue co-op	$4.25 million
Tim Burton, film director	East 70s town house	$4.1 million
Hal Prince, Broadway producer (for his daughter Daisy)	East 64th Street town house	$4 million
Harvey Weinstein, Miramax Films co-chairman	Upper East Side town house	$3.95 million
Richard Parsons, Time Warner Inc. president	Duane Street condo	$3.7 million
Harry Evans, *Daily News* vice chairman and editorial director and Tina Brown, *New Yorker* editor	East 57th Street co-op	$3.7 million

All over the world currencies are sinking to new lows. Last week the S. African rand continued its descent (5.5 rands to the buck) as SA interest rates were fixed at 23% in an effort to stem the decline. In the mean time, the Indian rupee sank to a record low of 42.74 to the dollar. The Canadian dollar also toppled to a record low of (can you believe?) 68 cents. What's going on? One theory is that with the US deficit shrinking, the world is suffering from a shortage of dollars. Another theory is that debt the world over (due to bankruptcies) is being destroyed, and that the value of most of the world's currencies is being questioned. Still another theory -- the dollar is the reserve currency and it's an island of safety in a world that's deflating, so the only place to be is in dollars. Meanwhile, gold is still clinging to its 295-300 dollar area while "black gold," better known as oil, has fallen by 30% over the last year.

With billions in debt being wiped out, much of the world (read Asia) is deflating. The antidote for deflation is more money, which at this point means more reserve currency -- dollars. Suddenly, everyone wants dollars, but there aren't enough of them. Tell it to Greenspan, ah, he probably knows it already.

The biggest bull around is my old friend, Joe Granville, who believes Dow 10,000 by the end of the year is a lock. Still bullish is Goldman's guru, Abbey Cohen. Writes the *NY Times*, "Abbey Joseph Cohen remains as bullish as ever, contending that the "supertanker" US economy is strong enough to withstand the effect of turbulence in Asia. In a telephone conference this week she told investors that 'even if Asia stays extremely weak,' the economy and the market will remain strong, and she said the Dow could easily reach 9,300 by year's end." **Russell Comment:** Thanks Joe and Abbey, but I'll just continue to follow my PTI.

Daily, we've been hearing the latest news on the collapse of the yen. A little over 80 to the dollar in 1985, the yen has fallen to the recent 145 to the dollar. Gad what a waterfall! But when you look at a long term chart of the yen, you get a different perspective. This chart from the *WSJ* shows the yen starting at 355 to the dollar in 1970, gaining in strength as it finally exploded to its peak of strength in '85. But looking at this long-term chart it appears that the yen has, so far, just budged off its bottom. In fact, the chart suggests that the yen could easily surpass 150 to the dollar or even 170-80 to the buck.


Long-Term Relationship: The Dollar and the Yen
Monthly value of the U.S. dollar in Japanese yen (the yen's value falls as the line rises)
400
350
300
250
200
150
100
50
Aug. 1971: President Richard Nixon ends dollar-gold convertibility, effectively closing the era of fixed exchange rates.
Sept. 1985: The "Plaza Accord," seeks a lower value for the U.S. dollar.
Feb. 1987: The "Louvre Accord," seeks to stabilize the dollar's value.
Oct. 1979: Paul Volcker, chairman of the U.S. Federal Reserve Board, says the central bank will manage monetary policy by targeting money supply levels, not interest rates.
1970
'75
'80
'85
'90
'95
'98
Source: New York Federal Reserve Bank

What do Americans earn? The per capita average runs around $25,000 per year. The Dept. of Commerce (1997 statistics) shows the lowest per capita in West Virginia at $18,957 while the highest per capita is Connecticut at $36,263. In view of this, is it any wonder that the majority of women in this nation are now working, and this includes mothers?

A strange facet of this economy is that despite it being so rosy, personal bankruptcies exploded to a record 1.3 million last year. Why are so many people filing for bankruptcy? One theory is that they simply went over their heads in borrowing. Of course, the government doesn't like to look at it that way. The government's stand is that filing for bankruptcy is "too easy," and politicians are moving to toughen up on the bankruptcy laws.

I ended the last Letter with *Investor's Business Daily's* Mutual Fund chart. It didn't look that good. Ironically, the funds are now at their lowest cash position in history. At the end of April the cash-to-assets ratio of the funds dropped to a record low of 3.8%, meaning that they held only 3.8% of their portfolios in cash and interest-earning cash equivalents. What this also means is that if the market heads down and fund-holders decide to switch out of their funds, the managers will have to sell stocks to raise cash. Just as massive fund-buying has been a plus for the bull market as stocks rose, fund-selling can be a gift to the bear if a bear market moves into place.

How bad is it in Japan? One measure is the suicide rate. In Japan, unlike America, suicide is not considered a cop-out, an embarrassment or a shame. In fact, it is often considered an honorable way to express shame or atonement for problems such as an unpaid debt. At any rate, the number of Japanese suicides caused by economic problems surged 18% to 3,556 in calendar year 1997.

The following is from the *National Underwriter,* which is the weekly newspaper for the insurance industry. Lloyds of London estimates that **Y2K,** the "millennium bug" will cost $1 trillion world wide. Lloyds also notes that a typical large corporation will spend about $100 million to find and implement a Y2K solution. Even so, less than half of all companies will be ready when January 1, 2000 arrives. As many as 20% of companies will go out of business. According to insurance experts, insurance companies have a major concern regarding Y2K, and many of them will face law suits if the bug hits their customers.

Bad: On June 16 the *NY Times* presented a front-page article outlining the danger of the national craze for gambling. Almost all states (except Utah) now allow some form of gambling. The *Times* article stated that kids now grow up in the US totally used to, and totally accepting, the concept of gambling. But, the article continues, unfortunately one out of seven people have become gambling-addicts or compulsive (sick) gamblers.

As if that isn't bad enough, the June 13 *Economist* presents an article showing that (according to the UN) the drug business is now worth $400 billion a year, thereby surpassing the entire medical drug business in dollar value. They also state that money laundering (which is tied to drugs) eats up 2% of the world's GDP. Two weeks ago a full page ad in the *NY Times*, signed by dozens of prominent Americans, claimed that the so-called "War on Drugs" was doing more harm than good, resulting in the US putting more of its citizens behind bars than any other nation. **Russell Opinion:** The government can't kill the drug business; there's too much money involved. For instance, the *Economist* estimates that in NYC alone the cocaine business produces $9 billion in profits. The Russell solution: Education; it's the only solution for every major problem from wars to deficits to political corruption. An educated electorate is necessary for the functioning of a true Democracy. The drug industry, like gambling or cigarette smoking, exists on denial, ignorance and just plain stupidity.

Talk of stupidity always brings up (at least to me) thoughts of the US budget deficit. With all the talk of current surpluses, what nobody seems to talk about is that the current so-called "surplus" is basically a product of two items: (1) The huge tax take from the current bull market cycle, and (2) the fact that the income from the Social Security tax is taken in as part of the US budget. The first may not last for long and the second is a government fraud. The proof is that the government, despite the phony "surplus," still has to borrow $150 to $200 billion every year.

Help! I continue to be flooded with letters, half of them offering comments (many excellent comments) and the other half asking questions. I simply can't answer the great bulk of these letters. Or I should say that I can't answer them and read all I've got to read and write all I've got to write. But don't get me wrong, I appreciate your interest and efforts. I only wish I could respond to each letter. And yes, in answer to many letters, I was wrong, Silicon Valley does read the *NY Times* (it seems Siliconers subscribe to the *Times* but never buy it from outside vending machines).

Hollywood is celebrating films by showing the hundred greatest films ever made. Number 43 on the list is King Kong, the seminal film which was released in 1933. Which brings back memories. One day back in the mid-60s I received a call from a subscriber. He said he was General Merian Cooper. We talked for a while and "The General" told me that King Kong was his original idea and that he had actually produced and directed the movie. Furthermore, he told me that he was one of the founders of Pan-American Airways. On top of that, Cooper told me that he was Adjutant to Clair Chenault, the American general who led the famous Flying Tigers during World War II. I enjoyed talking to "The General" but quickly wrote him off as a total nut, since I knew that nobody could have accomplished what Cooper claimed. About a month later while in the local public library I suddenly had an idea -- I would look up Merian Cooper in "Who's Who" and dispense with this crazy fellow once and for all. All except for one little item -- everything General Merian Cooper told me was absolutely true. I enjoyed many conversations with this fabulous man over the years -- up until the time of his death here in Coronado some years ago. Merian Cooper, one of the most incredible men I've ever met.

Gossip: This year's answer to Walter Winchell is clearly Matt Drudge. If you want to hear the latest "news/gossip," grab your mouse and hit "The Drudge Report" on the Internet. So what if Matt gets sued. . . Have you seen the crazy picture-spread of Monica Lewinsky in the current issue of *Vanity Fair* (crazy because the last thing she's supposed to be now is seductive). Everyone is wondering what she is trying to say. My take: She sending a message to the President that she's still in love with him, she's still there, and why doesn't he call? Why, why?. . . Poor Edgar Bronfman, the newspapers all refer to him as Junior. Enthralled with show business, he going heavily into debt while selling all his DuPont stock and more recently his Time Warner stock. Meanwhile, the business that made his family rich, liquor, is not doing that well. With the purchase of PolyGram, Junior is now heavily in the music business. Entertainment may offer the glamour -- but he couldn't lose with booze . . . According to the National Council for Research on Women, girls have virtually caught up with boys in math performance and have closed the gap considerably in science. But unfortunately, girls now smoke, drink and use drugs as often as boys. Women now outnumber men in both law and medical schools. And guys might remember, women now vote.So macho-men and right-wing pols, watch your step. . . . Seems the 190 partners at 129-year old Goldman Sachs couldn't resist the temptation of getting rich immediately. Thus, they will be selling 10% to 15% of Goldman to the public. Most of the Goldman partners will pull in $50 to $150 million. Sumitomo Bank of Japan loves the deal. They bought 10% of Goldman for $500 million back in '86. The Sumitomo share could now be worth around $2.5 billion. . . . My wife, Faye, just back from Monte Carlo and Paris says that the hot new style for women is long, gauzy, see-through dresses and skirts. She says they're not like the "old style" long dresses, "these new dresses are really sexy." Faye brought a few examples back, and I can vouch for what she said -- they ARE sexy. . . The German soccer team was just too much for the Americans to handle. Annina, a blond, 22 year-old model graced the front page of *Bild*, Germany's best-selling newspaper. Annina was clad in the seven-piece uniform of the German soccer team. Annina will be pictured wearing one-item less for each German win. To win it all Germany must win seven games. Thus a German triumph on July 13 could show Annina on the front page of *Bild* wearing only a smile.

The GM strike could be a long one. GM absolutely must cut costs if it's going to compete in the fiercely competitive international world of autos. GM wants work-rule changes to

increase productivity while the union is fighting to preserve jobs. The union objects to GM seeking cheaper labor and manufacturing overseas. But if GM doesn't follow that pattern, it's going to be in trouble, and it's already losing market share. Question: when was the last time you saw something exciting come out of GM?

Microsoft got a huge present from Fed Chairman Alan Greenspan.On June 16, testifying before the Senate Judiciary Committee, Greenspan questioned the US's method of handling mergers and takeovers. He stated that nobody really knows how a merger will work, and a long history of post-mergers confirms that observation. Greenspan acknowledged that he differs with the Justice Department's antitrust chief, Joel Klein. After the hearing, an obviously annoyed Klein retorted, "I hope when he (Greenspan) sets the discount rate, he exercises some humility." On top of that, last week a court decision allowed MSFT to package in its web searcher with Windows 98. Is there any stopping Billie G., whose stock promptly vaulted to over 100?

Diamonds: Due to the turmoil in Asia, sale of rough (uncut) diamonds has fallen 41% to $ 1.7 billion during the first half of '98. If this continues De Beers says full year sales could wind up being the worst in years. To keep prices stable, the cartel has stockpiled diamonds received from producer nations including those mined in Russia, Botswana and Namibia. **Russell Comment:** Not all diamonds are rare, only large diamonds (above 2-3 carats) are rare.There are really three classes of diamonds, industrial grade off-color diamonds, small diamonds under a carat, and the rare large diamonds (the latter are still expensive and actually very firm in price).

Clinton has got to be one of the luckiest men alive -- he's got Starr as an independent counsel. As columnist John Farmer put it, "Republicans in Washington are deeply disappointed in Starr. They handed him a juicy probe of an embattled president with a fanny-patting past, a political record in a crony-corrupt state, and a wife with a taste for political intrigue and vendettas. It was a lay-up they gave Starr -- and he blew it." **Russell Comment:** Well, I'm not sure he totally blew it, but he does talk too much and he's far too thin-skinned. Starr should totally ignore the attacks of Clinton's White House spinmeisters and just get on with it.

Disney has bought a big chunk (43%) of Infoseek, the directory-service that helps you find items on the Net. The market evidently thinks that web-finders are the way to riches, because everybody wants a piece of them and the prices are sky-high. I mostly use Yahoo, which is as good or better than the others. What about America On Line? I used to subscribe, but got tired of it. I far prefer the Internet. Nevertheless, AT & T offered a huge amount to buy AOL and AOL turned them down. My opinion is that the whole Net and everything connected with it is in its infancy, and that any purchases based on future net profits are simply a throw of the dice. Note: although Bill Gates and Paul Alan believe that cable is the way to deliver the Net, Swedish giant L.M. Ericsson is betting that the future of the Net is via wireless. Last year two-thirds of its $21 billion in sales came from mobile phones and wireless gear. Russell Comment: I dunno, I have satellite TV and it works well. Why shouldn't the Internet work just as well via satellite? Personally, I wouldn't bet that cable is the wave of the future.

Russell Musing: With currencies across the globe bouncing around like rubber balls, I have to wonder whether at some point people, nations, economists, are not going to get disgusted with this whole fiat paper currency system (which actually, has only been in existence since 1971). To defend their currencies, many Asian nations have boosted their interest rates to super-high levels. But, of course, interest rates alone won't do the trick. And I have to wonder at this point if the most expensive item around isn't the dollar and if the cheapest item around isn't gold. . . . I've spent a lot of time on the Internet, I've ordered books and CDs on the Net. And I'm beginning to believe that the Net is a force for deflation and negative pricing power. The ease of price comparisons on the Net is obvious. How is one company going to sell books, for instance, at a 33% discount when another company is offering to sell the same books for a 40% discount? And it's only a matter of time, I feel, before almost all brokerage will be done over the Net: stocks, bonds, insurance, you name it. The competition has got to be vicious. . . . And speaking of competition, how about competition among Net servers themselves. Yahoo, Lycos, Earthlink, Infoseek, will all be making big bucks? I just read about a fellow who has developed a totally new and better system for searching. Book-seller Amazon.Com is priced at over 81 now, but it won't be making a nickel of profit for at least two years. And it will be facing tough competition from Barnes & Noble which will be on the net. . . Here's a run-down on the number of visitors to the various sites on average per month: Yahoo -- 32 million; Netscape -- 21 mils.; AOL -- 19 mils.; Microsoft -- 18 mils.; Excite -- 16 mils.; Infoseek -- 13 mils.; Lycos -- 11 mils. . . . .What's the ultimate payoff for the sites? Internet advertising is supposed to rise from $500 million in '97 to $6.5 billion in 2001. Sites get a piece of the action when they lead viewers to companies that sell goods and services on the Net. By 2002 it is hoped that the whole Net thing will blossom into a $300 billion business. But there are probably too many site searchers. Yahoo's chief operating officer states, "Some day you'll turn on your computer and there will be three big networks." But he may be optimistic if a lot of people start thinking they don't need a searcher at all. Most people might just have one or two areas they are interested in such as sports and news and they simply zero in on those particular sites.

GOLD: Here I am again, discussing the world's longest bear market, and, according to many gold-philes, the world's cheapest item. Yes, I'm talking about gold, which has been suffering through an 18-year bear market, a bear market which has seen the price of gold decline from its 1980 "blow-off" high to today's low of 298, a loss of 63%.

If you were a citizen of Thailand or Indonesia or India, gold would look awfully good to you. But as a dollar-holding American, you've hardly been thrilled with gold action. Wait a second, I'm going to try to be encouraging. The chart below shows what is arguably the world's best gold stock, Barrick Resources, bouncing off its recent low of 16 ½, and that low was happily above the January low of 15. Next, who knows, ABX might decide to rally above its 34-day MA of 19, and that would be a nice plus.

Below ABX we see the Dec. gold futures. The formation has the look of a potential bottom, but the futures would have to better 306 for a true technical breakout. The 34-day MA for Dec. gold stands at 301. There, I've given you a cold, unemotional rundown on the price action for gold. Everything else, all the rumors, all the hopes, all the concepts -- they're interesting but we don't buy and sell concepts, we buy and sell PRICE.

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